What Every New Zealander Should Know About E.E.C.

The European Economic Community and you

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WHAT EVERY NEW ZEALANDER SHOULD KNOW ABOUT E.E.C.

Introduction

When it was announced that Britain would apply to join the European Economic Community (E.E.C.), Mr Holyoake, New Zealand's Prime Minister, was reported to have said : "If Britain were to sign the Rome Treaty as it stands, the economic consequences for New Zealand would be disastrous."* The New Zealand Federation of Labour in May, 1961, made an impassioned appeal to the Secretary of the British Trade Union Congress, Mr George Woodcock, stating its opposition in the following terms : "If Britain goes into the E.E.C. the close trading arrangements which New Zealand has with the United Kingdom are going to be set aside. The United Kingdom would become a part of a European customs union, set up to discriminate against outsiders. The United Kingdom would inevitably be involved in discrimination against New Zealand meat, dairy produce and fruit. There is this danger not only to our trade, but to the political future of New Zealand. The entry of Britain into the E.E.C. would be not only an economic move of shattering consequences to us, but even more important it would be a political decision taking Britain out of the Commonwealth. This is the gravest problem New Zealand has faced in its whole history."**

This is not a matter which concerns Britain alone. If the Commonwealth means more than a fine emotion, it is a matter which concerns the Commonwealth and every member of the Commonwealth, in other words it concerns us. We have a right to take an attitude and it is in our own interests to take an attitude ; yet there is some shyness against openly opposing Britain's entry into E.E.C.

There are several reasons for this reluctance to oppose British entry into E.E.C. There are pressures, the same pressures which we shall see are at work to push Britain into E.E.C. — against her own interests. But the main official reason given is that British entry into E.E.C. might benefit Britain in the long run to such an extent that Britain must override New Zealand's interests in the cause of sacred egoism. And, of course, it is added, increased British prosperity which

* Christchurch Press, August 3rd, 1961.
** "European Economic Community" Gravest Problem in New Zealand's History, issued by the N.Z. Federation of Labour, May, 1961, p. 3.

would come with Britain's entry into E.E.C., would also mean increased prosperity for New Zealand.

Contrariwise it is suggested that failure of Britain to obtain entry into the European Economic Community would mean long-term economic stagnation for Britain and thus for New Zealand.

I think that Britain's entry into E.E.C. will be disadvantageous to her own economy, and to her own standing in the world. On the other hand, I believe that there is a continuing place for Britain outside E.E.C. where all the qualities which have made Britain great can be developed to the advantage of herself and the world — and that includes New Zealand. Thus by putting our weight into the scales against Britain joining the European Economic Community we shall not only be working in the interests of our own country (which surely is important enough) but we shall be working for the interests of Britain herself and in the interests of a more prosperous and more peaceful world.

How I have reached these conclusions is described in the pages that follow. I feel that the facts and ideas outlined, while obviously far from complete, are facts which every New Zealander should know in the interest of his country.

CHAPTER I

What is the European Economic Community?

1. History and Political Background

It is impossible to understand the nature of the European Economic Community unless one realises that the concept of this Community is, above all, political. It is true that, following an almost Marxian approach towards history and politics, the founders of the Community realised that political objectives can only be achieved if the economic conditions for the achievement of these political objectives have been established. The first steps in the formation of a Federation of Europe have, therefore, been in the economic field. But to discuss Britain's entry into the European Economic Community merely from an economic angle is equivalent to ignoring the substance of the achievement of E.E.C. Similarly, to look at the negotiations concerning Britain's entry into E.E.C. merely from an economic angle means lack of understanding of the most important underlying tensions between the negotiating partners.

The European Economic Community is the offspring of the Schuman Declaration of May 9, 1950. Monsieur Robert Schuman, then Prime Minister of France, on that day proposed on behalf of the French Government that France and Germany should pool their coal and steel resources as the basis for a later Federation of Western Europe.

France had been severely manhandled by Germany twice in 25 years. The idea of Robert Schuman was to tie Germany's hands against future aggression against France by organising the French and German coal and steel industries in one unit. Monsieur Schuman put these ideas in the following terms: "The solidarity in production thus established will make it plain that any war between France and Germany becomes, not merely unthinkable, but materially impossible."*

There was a second political idea connected with the establishment of the first European economic community organisation — the European Coal and Steel Community. In his declaration Monsieur Schuman said: "With new means at her disposal, Europe will be able to pursue the realisation of one of her essential tasks, the development of the African continent." In the era of growing national independence and the Revolution of Rising Expectations which is sweeping the world, the colonial countries of Europe had to realise that new methods and new strength were required to maintain European

* Europe, A Great Idea Materialises. Issued by the European Coal and Steel Community, High Authority, May 9, 1960, p. 9.

predominance over the old colonial empires. The increased capacity of European industry which was visualised by the co-operation of the coal and steel giants of the Ruhr, the Lorraine and the Rhine basin was to be the new basis of " the development of the African continent " under French and German guidance.

The third idea contained in the Schuman Declaration of May, 1950, was that the Coal and Steel Community would be merely the forerunner of a wider economic community and finally of a Western European Federation : " By pooling basic production and by setting up a new higher authority, these proposals will build the first concrete foundations of the European Federation which is indispensable for the preservation of peace."*

Western Germany, just slowly getting back on her feet after the 1948 currency reform which had irrevocably split Western and Eastern Germany into two separate economic units, was offered various prizes for entering the Coal and Steel Community. Monsieur Schuman described the German price for joining as follows : " We could not succeed unless we had the full personal confidence of Chancellor Adenauer. His adherence was forthcoming after searching discussions on the status of the Saar, the problems of the Ruhr and the limitation of German industrial production."* In other words, many of the clauses of the Potsdam Declaration, dealing with the permanent economic (and impliedly military) disarmament of Germany had to be scrapped, if Western Germany was to join. The price was paid and Western Germany recognised that her way back to power must lie in closer co-operation with France in the fields of European Economic Co-operation.

Thus the basis of the so-called European idea is not the creation of a unified Europe (from the Straits of Gibraltar to the Urals), but it is a bargain between France and Western Germany according to which Western Germany ties her hands in the West by ever closer economic co-operation with France and where France hoped to maintain preponderance in Europe on the basis of her own size and her predominant geographical and historical position.

The close relations between France and Italy on the one hand and of the Benelux countries with France and Western Germany led to these countries gravitating irrevocably into the Franco-German ambit and thus was created the first European Economic Community — The European Coal and Steel Community.

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* Loc. cit. p. 26.

The success of the big Coal and Steel Concerns' alliance — for this is essentially the nature of the European Coal and Steel Community — became the pathbreaking experiment on which the Treaty of Rome was grafted, establishing the European Economic Community*. This second and greater step towards economic integration was like its predecessor first and foremost a Franco-Western German attempt to establish a new Concert of Europe, based on Franco-German harmony and increasing political integration. It was no accident that this treaty was concluded not only not with Britain, but almost against Britain. For too long, in French opinion, had Britain played the game of the balance of power — playing the second power of Europe against the strongest and thus maintaining leadership for herself. Now the two strongest powers of Europe, France and Western Germany combined and if Britain was ever to join, she had to join on terms laid down by united French and Western German councils. Bearing this French aversion to traditional British balance of power politics in mind, one can understand with how little gratification the French must read statements advocating British entry on the grounds that this would give Britain a chance to oppose French protectionist policies inside the union — in particular if the more liberal-minded Scandinavian countries, which tend to follow Britain, also entered.

On the other side, Dr. Adenauer's Western Germany is suspicious of British entry and the entry of Britain's northern and more neutrally-minded allies. Dr. Adenauer has conceived of the European Economic Community as the political basis for the achievement of Western Germany's revisionist aims east of the Elbe. With Britain entering, new political factors might lead to a revision of the strictly anti-Soviet policy which is the basis, at present, of Franco-German unity. Dr. Adenauer was, therefore, reported on the 2nd October, 1962, " to oppose British entry into Europe politically for the time being, on the grounds that this would be followed by the entry of other countries and the resultant union would be watered down too much."

The political origins of the European Economic Community, therefore, explain the opposition to Britain's entry, both from France and Western Germany. The smaller countries, on the other hand — Italy and Belgium, Netherlands, Luxemburg — would very probably like to see Britain in their community since they feel somewhat overwhelmed by

* The Treaty of Rome is the basic Constitution of the European Economic Community. Drafted in a great hurry in order to exploit the specific political constellation of 1955-7, when M. Guy Mollet was French Prime Minister, before Dr. Adenauer had to face his electorate in the autumn of 1957, it was signed by the Governments of the Six on March 24th, 1957, and was ratified by all member States within a few months. It came into force on January 1st, 1958.

the weight of the Western German and French giants who too frequently have tended to look at the small fellows as "expendable."

In considering British application to enter the E.E.C. it must, therefore, always be borne in mind that France, in particular, but to some extent Western Germany as well, consider British entry a drawback rather than an advantage, and that they will, therefore, make as few concessions as decently possible to a Britain which is the supplicant. That is one of the reasons why New Zealand's chances for being granted special privileges are much smaller than is frequently represented. Britain's bargaining position in her negotiations for entry is politically very weak. If the Six will make any concessions to New Zealand, it will not be to concede a point to the United Kingdom, but rather because they can see an advantage for themselves in such a concession. And whether there is such an advantage appears doubtful.

2. The Organisation of the European Economic Community

On the organisational plane, as on the political one, the European Economic Community was created in the image of the Coal and Steel Community. The Coal and Steel Community was essentially based on business principles. There had to be a strong executive untrammelled by "politicians." Thus all the real authority of the Coal and Steel Community is concentrated in the "High Authority," a group of nine men, appointed for six years. There is little control of the High Authority. There are various consultative Committees attached to the High Authority, one consisting of representatives of labour and management as well as steel and coal consumers and dealers, another consisting of Ministers representing the Governments of the Six countries belonging to the Community. There also is a Parliamentary Assembly, consisting of delegates nominated by their respective Parliaments. But none of these organs, apart from the High Authority have any real power. It is, of course, in the interest of the High Authority that its decisions arouse as little political antagonism in the various member countries as possible. For that reason the consultative bodies may possess a greater power to influence policies than appears on the face of it. But the Government of the Coal and Steel Community is essentially bureaucratic, not to say autocratic.

A similar verdict must apply to a consideration of the organisational structure of the European Economic Community. The executive work of the European Economic Community is carried out by two bodies in conjunction: the Council of Ministers and the European Commission. Of these two bodies the Council of Ministers is on the surface the more

important body; in fact, however, it is the European Commission which has the initiative in forming, implementing and controlling policies.

The Council of Ministers consists of six members, appointed by each participating country. The Council cannot initiate any legislation, it merely can amend proposals submitted to it by the European Commission. The Council can also approve or reject the financial Budget presented by the Commission for its working expenses.

Members of the European Economic Commission, whose headquarters are in Brussels (Belgium), are nominated by their Government for four years. There are nine members and not more than two of them may belong to the same nationality. The Commission members are not responsible to their Governments, in fact they are enjoined to act as a supra-national agency ignoring any particular interests. The Parliamentary Assembly could remove the whole Commission by a two-third vote of non-confidence. There are no other ways of removing the Commission.

There is a European Parliamentary Assembly whose members are nominated by some of the parliamentary parties represented in the various national Parliaments. There are no Communist representatives, although Communists represent about a quarter to a fifth of all voters in Italy and France. The European Parliamentary Assembly is a Parliament in the spirit of President de Gaulle — a talking shop without any decision-making power of consequence. However, the Council and Commission are requested to make reports to that Assembly, which meets at frequent occasions at Strasbourg, and these reports then form the subject of debate. To the extent that the members of the Assembly return to their respective Parliaments better informed, they will make a contribution to Common Market policies. There also is the point that under modern conditions no Government can remain entirely immune to public opinion. To the extent that the Parliamentary Assembly does, in fact, represent important trends of European public opinion, the Council of Ministers and the European Commission will consider the Assembly worth watching.

With all this, one matter has to be remembered: so far the European Economic Community is not yet a political unit. All legislation has finally to be passed by national Parliaments. All the Council of Ministers and the Commission can do, is to pass regulations and make directives inviting national legislative organs to take certain steps in line with the implementation of the Treaty of Rome. If the Council of Ministers passes such regulations, Parliaments and other

organs of State ought to implement these regulations. It is one of the tasks of the European Commission to see that, in fact, the regulations passed by the Council are also put into effect by the individual national organs. If there is failure to do so, the Commission can put the case before the European Court of Justice. But this Court has no enforcing powers either — except its great moral weight.

Nevertheless, the powers of the European Economic Commission must not be under-estimated. The Commission has, as the Treaty of Rome, the basic instrument of the European Economic Community, says, its own powers of decision. It can give orders to any member State on the principles and the details of application of the rules of free competition to nationalised industries or to any industries enjoying special or exclusive rights, or to monopoly services. It can order a Government which has taken emergency measures in defence of its currency to withdraw those measures and it can order it to abolish any form of State aid which it regards as incompatible with Article 92 of the Treaty of Rome defining the permissible forms of State aid.

The Commission also issues directives (specifying the result to be achieved but not the method of achievement) on the rate of suppression of taxes equivalent to customs duties and on the framework within which agricultural prices are to be negotiated.

Finally, the Commission can give or refuse authorisations. These include the maintenance of certain revenue duties, the creation of import quotas at reduced tariffs, the partial or total suspension of the Community's external tariff in some cases, and the postponement of changes in the common tariff. The Commission may also authorise the taking of protective measures on capital movements and the granting of support or protection to individual enterprises in certain cases.*

So far there has been no occasion of severe dispute between the Commission, the Council of Ministers and individual Governments attached to the Community. Perhaps one of the reasons for this fact is that all the Governments of the six countries which form the Community are similar in

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* The powers of the European Commission exist in the following formal measures:
Regulations — these are binding in law from the moment of issue to all member States;
Directives — these order Governments to achieve particular results without specifying how;
Decisions — these are binding in law from the moment of issue to those member States to whom they are addressed;
Authorisations — without these many things are expressly forbidden to member States;
Recommendations and opinions — these are not binding.
— For more details see W. Pickles, Not With Europe, Fabian International Bureau, London, 1962, price 3/6.

outlook: they are Christian-Democratic (Catholic) Governments pursuing very similar social policies. Another reason for the lack of opposition on the part of national legislatures has probably been the fact that in the early stages of the Community important decisions of the Council of Ministers had to be unanimous so that every country's representative could raise a veto if he felt that implementation of a regulation would meet with difficulties in his country.

This unanimity rule, however, will be abandoned by 1969 when the transitional regulations of the Treaty expire. Thus once the Community is firmly established major decisions can be made by the Council of Ministers by majority voting — but in most cases twelve votes out of seventeen will be necessary to overrule a minority.

The voting in the Council of Ministers at the present time is:

France	4 votes
Western Germany	4 votes
Italy	4 votes
Belgium	2 votes
Netherlands	2 votes
Luxemburg	1 vote

It can be seen that the Big Three can always out-vote the smaller countries. The question of voting would become a very intricate matter if Britain, Denmark, Norway, Ireland, and possibly Sweden, Switzerland and Austria joined the Community. Not only would there be the possibility of larger minority interests being overridden contrary to the wishes of the Governments of the countries in question, but also are the social and ideological principles of these countries' Governments frequently very different from the existing Six. In the Scandinavian countries we have well-established Labour Governments, and even the British Conservative Government must look in the eyes of many European politicians almost Red in its social and economic policies.

The Treaty of Rome contains a further form of affiliation to the Community: Association. Essentially devised to maintain the former French colonies in Africa within the economic ambit of the European Community, Association status has recently been extended to Greece and is being negotiated with Turkey.

Association status implies that most of the regulations of the Community regarding the free movement of goods and capital (but not of persons) apply to associated States. On the other hand certain safeguards are permitted to associated countries for the protection of developing industries which are

not available to full members of E.E.C. Associated status does not carry any right of taking part in the administration of the European Economic Community. Neither the Commission nor the Council of Ministers contain members of Associated States. Association may well be described as membership in E.E.C. with almost all duties but without voice. This is probably one of the reasons why the British Commonwealth States in Africa have refused Association in the case of Britain joining E.E.C.

3. The Policy Objectives of the European Economic Community

We have seen that in the name of " supranationalism " the European Economic Community has established a regime in which established Parliamentary institutions play a very inferior part. The regime of the European Economic Community is bureaucratic-paternalistic, very much in line with the political shape which France seems to be assuming under President de Gaulle.

It is likely that the power of the new institutions will grow rather than diminish.

The question arises, how great are the powers of the executive organs of the Community? These powers can only be appraised in terms of the objectives of the Treaty of Rome.

In a way, one may say that the Treaty of Rome is essentially a negative document. It stipulates that parties to the Treaty should abolish all economic barriers between them. And the powers of the European executives are apparently only such as can implement this abolition of barriers. One may say, on the surface, all the European executives are called upon to do, is to co-ordinate agreed national policies on the dismantlement of trade barriers.

But when it comes to define what " dismantlement of trade barriers " means it can quickly be seen that the powers of the European Executives are truly enormous.

The point about trade barriers is that they are not simply represented by customs duties. If that was the case, all the Council of Ministers and the European Commission had to do was to supervise that tariffs were abolished according to an agreed schedule by 1970, after which the European Commission could retire.

In fact, however, countries protect themselves against the products of other nationals (with a view to looking after the welfare of their own nationals) by a whole array of measures. All these measures must be brought under international

control. All these measures must be co-ordinated and supervised.

First of all there are import controls. They can be ever so subtle, on medical, hygienic, safety and other grounds. All import controls must go.

Then there are indirect taxes. If a customs duty is simply replaced by a local sales tax to the same amount, the abolition of customs duties has been circumvented. Thus the Economic Commission of Europe has a warrant to supervise member countries' financial legislation so as to see that the taxation system does not favour local as opposed to imported goods.

There must be freedom of migration of workers from one job to another in the Community so as to achieve a common wage level. The European Commission must draw up regulations to make possible this inter-Community migration, while excluding immigration from non-Community countries.

Then there are transport charges. If a member country's transport businesses could charge higher charges for goods coming from across the frontier the abolition of customs duties would again be circumvented. Thus the European executives must be able to supervise the pricing of transport operators in the member countries.

Then there is the question of free movement of funds — there must not be any controls, and not even any preference in favour of national money as opposed to foreign money. In fact, the logic of this provision is the institution, sooner or later, of a common European currency and a common supranational Reserve Bank.

Next there is the possibility of private agreements in restraint of trade. Obviously, the European Commission, while it can tell Governments and Parliaments what to do and how to legislate, will find it very much more difficult to stop private business concerns from carving up the market for themselves. American attempts at such interference with monopoly rights have proved a failure, and there can be no doubt that a failure it will prove in Europe. Nevertheless, legislative action is to be taken to try and restrict practices which could favour national monopolies over and above international movement of goods and services.

But there are some much more basic matters which are necessary if all discrimination is to cease between member States. The social and economic policies of one Government may be far in advance of that of another. The result would be—possibly—a higher cost structure in the socially advanced country. The first aim of the Community is to bring the lower standards up to the higher standards of Community members. This will cause, of course, some very substantial difficulties.

Thus, for instance, in France there is legislation that men and women get equal remuneration for equal jobs. This is to be made general in the Community. There also are different ways of charging social security taxes. Sometimes they are borne by the employer, sometimes by the worker. Uniformity is to be achieved.

We can see here that the European Economic Community must interfere in the social and financial policies of member Governments. For if every country is to have conditions which the most advanced country in the community has, then there will sooner or later be an outcry from one of the more backward countries that there must be a stop to further improvements in country A since it will also affect country B. Thus, it can be expected that some form of moratorium on social progress will have to be instituted sooner or later, at least for the most advanced countries. This is a matter of some concern to the people in countries like Britain or the Scandinavian countries.

Finally, there must be co-ordination of financial policies. It is, for instance, not imaginable that in the long run one country of the Community should decide on general disarmament when other countries increase their armament budget. The disarming country would immediately establish such an economic advance over the others that this would have to be considered a matter of economic disintegration as far as the Community as a whole was concerned. There are other public finance measures which will ultimately fall under the supervision of the Community. If a country spends liberally and taxes lightly, there may be an outflow of funds from that country, with the need to impose either import controls or exchange devaluation. These are measures not acceptable without consultation — and in the long run, not at all. Thus it can be seen that the objective of abolition of trade barriers is not a narrow one, but implies the control and supervision of practically all political and social activity, by the European Commission.

The elimination of customs barriers and import controls, the abolition of obstacles to free movement of people between member countries, the inauguration of a common transport policy and the supervision of social and financial policies are all aspects of the policy of internationalising trade and production between the member countries. On the other hand, the Treaty of Rome, in view of the backward agriculture prevailing in the member countries, foresaw a long period of agricultural subsidisation within the borders of the Common Market. The recognition of the need for a subsidised agriculture led to the need for the establishment of a common agricultural policy. This common agricultural policy is, of course, the aspect of the

policy of the Six which most concerns New Zealand. It is based on the idea that the burden of subsidising agriculture should be equally shared amongst member countries and that no country should have special advantages in terms of cheaper food prices for its working population. In terms of British admission to E.E.C. this would mean a transfer of the European scheme of farm subsidies to Britain. It would mean the payment of a levy by Britain to the European Agricultural Fund with a view to equalising the burden of subsidisation and also the increase in British food prices to the European level.

How, in detail these new policies will work out, is left to the European Commission. Britain would legislate with a view to achieving the objectives laid down by the Commission and the Commission would scrutinise and control the implementation of the new legislation so as to see that Britain did not obtain any unfair advantages relative to the situation of other E.E.C. members in terms of cheap food and access to raw materials.

There will, of course, have to be a common external tariff for the European Economic Community. For while they may be free-trade internally, externally — particularly in the foodstuffs and raw materials fields — the Six are protectionists. The establishment of a common tariff which will, of course, affect the economies of the participating countries radically, is another power left to the Council and the Commission. Individual Parliaments are only ratifying institutions — one may even say rubber stamps — after the Council of Ministers has made a Regulation.

The Community has also taken on certain collective obligations, through a common Investment Fund, regarding assistance to under-developed countries associated with the Community, and it also can conclude commercial treaties with the outside world.

It can be seen that the European executives which are far removed from the British idea of Parliamentary Government will have increasing powers. It will be difficult enough for them to carry out the co-ordination of policies as visualised in the Treaty of Rome, between the existing six countries of the Western European continent. It appears that the problems which would arise upon the entry of Britain and three or even six other sovereign States of quite different political complexion from that of the Six will be even greater.

One can sympathise with Chancellor Adenauer when he said: "He would oppose British entry into Europe **politically** for the time being, on the grounds that this would be followed by the entry of other countries and the resultant union would

be watered down too much." On the other hand, if Britain was not part of a **political**, but only of an economic union, and the powers of the European Commission were left to be administered by that Commission without substantial say on the part of Britain, the result might very well be unacceptable to the British people. It must also be remembered that the Treaty of Rome contains no clause providing for withdrawal from the Community.

It is clear that what is a tremendous difficulty for the Six — the co-ordination of all their social and financial and trading policies with a view to achieving a unified economic area — would be a Herculean task for the proposed Nine or even Twelve or Fourteen (perhaps fifteen, including Finland, Greece and Turkey).

CHAPTER II

E.E.C. in a Divided World

1. The Achievements of the European Economic Community so far

The achievements of the European Economic Community so far have been mainly in the consolidation of the bonds which tie the six countries, forming the community, together. Duties between the Six have been reduced to 50% of their basic level.

Progress has also been made towards the unification of the common tariff wall of the Six against the outside world. This common tariff constitutes the main dividing line between a Free Trade area (like the one Britain has established in conjunction with Sweden, Norway, Denmark, Portugal, Austria and Switzerland), and a true Economic Community. For in the simple free trade area scheme each country maintains its separate trading ties with the outside world. Britain maintains her trading ties with the Commonwealth unchanged. But in the case of the **common** customs tariff the preferential arrangements of each partner become merged in the uniform arrangements of the whole community.

The new uniform customs tariff of the Six has been based on an arithmetical average of the customs tariff of the Six. This meant a raising of the duties of such low-tariff countries as Holland and Belgium and a reduction in duties by France. This process of adjustment was made more acceptable by a global reduction of the common tariff against the outside world in a downward direction by 20%.

In January, 1962, the Council of Ministers decided to enter the second stage of the Community. This second stage implies that, while the Council of Ministers must still decide most matters unanimously, that transition to Stage III of the Community in 1965 is automatic. In Stage III of the Community's development most of the decisions by the Council of Ministers need no longer be unanimous; on the other hand, the final implementation of the Treaty of Rome with its complete abolition of intra-Six customs barriers and a complete common tariff, with a common agricultural policy, common transport, common social and common economic policy can, once the third stage has been reached, only be postponed by unanimous consent of the Ministers. In other words, the administrative movement of the Community is now getting increasingly towards an irrevocable unification of the Six countries involved.

The transition to Stage II of the development of the Community went hand in hand with agreement by the Six on a common agricultural policy.

The countries of the continent of Europe have a very backward agriculture. In order to raise the productivity of that agriculture on the one hand and to assure farmers (or rather peasants) a reasonable income, European agriculture has been heavily subsidised by consumers.

The salient point about European agricultural subsidies is that they differ fundamentally from British subsidies. In Britain the price of food is based on world market prices. If British farmers cannot supply their food at world market prices, their cost of production is ascertained and the difference between cost of production and world market prices is paid to them in the form of a subsidy, paid out of the Consolidated Fund. In Europe, on the other hand, prices are set very high, high enough to return to growers a reasonable return. In other words, it is the consumer who pays the subsidy to farmers. Since total food production in European countries is usually below requirements (at least if prices were reasonably low) the high prices can be maintained by keeping the market short of supplies. This is effected by import restrictions. On the other hand, if there is a surplus relative to the high prices which farmers want to extract from their own home markets, that surplus is taken off the market so as not to depress prices, and usually dumped abroad — generally in Britain.

Because of the protective and self-sufficient nature of this system of farm subsidisation, agricultural producers were at first exempted from the abolition of intra-European import restrictions. The Common Agricultural Policy has been worked out so that there could be in future a free flow of subsidised agricultural produce throughout the territory of the E.E.C. — the main feature of that policy is the fixation of prices and the establishment of a fund which can be used to support farmers in countries where the common agricultural price is below the price which existed before the institution of the common agricultural policy. This fund will ultimately be supplied, not out of taxation, but out of levies made on the importation of foodstuffs from countries outside the Community. These levies will vary according to the need to allow surplus supplies into the market or to shut such supplies out altogether. The Community's agricultural development fund will also be used to finance the improvement of European agriculture.

It may be remarked here that this policy of raising levies on the importation of outside commodities into the Community is a matter of the greatest importance to Britain and New Zealand. Since Britain will remain a very large importer of foodstuffs even if she should join the E.E.C., most, though not all of the levies raised on her imports (for instance, New

Zealand butter) would be put not into Britain's own treasury, but into the common development fund. This money would be used to subsidise the production and development of European agriculture. In fact, every pound of butter supplied to the British market under these conditions would make a contribution to the final exclusion of all imported butter due to increased productivity and reduced consumption financed out of the levy on imports.

So far no firm decisions have been made on the exact nature and amount of the proposed levies. Levies differ from tariffs in that they will change according to the need for protection. Tariffs are stable, levies are variable. The first test case will be for wheat, where prices should be fixed on a Community basis for the 1963 harvest.

In October, 1962, the European Commission drew up a programme of action for a common monetary policy for the Community to be implemented by 1967. That such far-reaching proposals should be discussed at this point shows the great momentum towards unification that is present in the E.E.C. It appears almost certain at the present time that progress towards political union is well on the way. The Commission in its far-reaching proposals for the establishment of a common monetary policy for the Six states:

> "It is contrary to reality to consider that there is on the one side the 'economic' which can be brought into common within the framework of the Community — and on the other side the 'political' for which a similar task remains to be accomplished in essence through a political union."*

The remarkable aspect about all these developments is, of course, that they are being initiated by the European Commission which is a body of supra-national that is, not responsible, bureaucrats. National Parliaments will later on, willy-nilly, have to consent to the implications of policies in the formulation of which they themselves had no part to play.

The so-called European Parliamentary Assembly is a sounding board for the Commission, but has no real powers. To the extent that it is made up of members of national legislatures it is also a good liaison body with local Parliaments. But the tendency is for members of the Parliamentary Assembly of Europe to sit according to their parties rather than according to their countries of origin; and the Commission is insistent that as soon as possible the Parliamentary Assembly should be recruited by direct suffrage. This would remove the last vestiges of power from that Assembly since it would have no voice in the individual Parliaments of the Six and its unsympathetic discussion of any particular proposals would have no meaning in terms of power, although it would

* Quoted from Economist, November 3, 1962, p. 497.

represent, of course, an aspect of public opinion which public-relation-conscious bureaucrats must always take into account. However, they may take these opinions into account from the point of view that some more intensive preparation of public opinion may be necessary to carry out unpopular measures, rather than from the point of view that they have to change their own determination and desist from carrying out unpalatable measures.

The achievements of the European Economic Community, so far, have been mainly in the field of successful integration of the European economies, and in the establishment of a new form of bureaucratic Government (sometimes called "eurocratic"), which represents the "supra-national" ideal of the founders of the European movement.

When we ask ourselves to what extent have these administrative and political measures led to an economic revival in Europe, we come on to some more controversial ground.

For quite some time it was claimed that Britain should join the European Common Market because the prosperity of the Six was sure proof that joining such a new group led to prosperity, high production and rising incomes.

And indeed the economic progress of the Six has been good:

Trend in Manufacturing Production in the Six and the World, 1959 - 1961

	% Changes annual rates
Belgium-Luxemburg	+ 6
France	+ 6
Western Germany	+ 9
Italy	+ 13
Netherlands	+ 7
Total E.E.C.	+ 9
U.S.A.	+ 2
U.K.	+ 4½
World	+ 5½

Source: National Institute, Economic Review, August, 1962, p. 31.

Similarly, trade between the Six has increased at rapid rates: the total value of exports of the Six to each other grew from $6,553 million in 1958 (the first year of the Common Market), to $11,870 million in 1961.*

Generally speaking, there can be no doubt that the economies of the Six have been prospering. Unemployment, indeed, has not vanished, but from a level of 2.8 million unemployed in the Six in 1958, it dropped to a level of 1.8 million in 1961. This favourable development has become particularly noticeable in Western Germany, but also to some extent in Northern Italy, although Southern Italy remains a

* National Institute Economic Review, August 1962, p. 26.

problem area. In a good many branches of employment, a shortage of labour has replaced unemployment. No doubt, the peoples of the Six are looking at this development as an unalloyed blessing.

Yet, if we look for the causes of the increased prosperity in Europe, we find that there may be considerable doubts expressed as to whether it is due to E.E.C., or if it would have been present even without the impetus of E.E.C.

Some very detailed studies have been made trying to find out to what extent growth has been accelerated since the formation of E.E.C. Of these the two best known are one by Monsieur Alexander Lamfalussy in the Lloyds Bank Review of October, 1961, and the other by Mr R. L. Major, of the British National Institute of Economic and Social Research in their Economic Review of August, 1962.

Both authors come to the same conclusion. There is no indication that growth rates have accelerated in the area of the Six since the creation of E.E.C. due to the Common Market. For world production and trade expanded similarly in areas outside E.E.C. In order to make their points, these authors have compared the period 1955-1958, when there was no E.E.C., and the period 1958-1961, when E.E.C. was growing sturdily.

Here are the results — taken from Mr Major's study — for production and trade:

Trend in Manufacturing Production and Intra-European Trade of the Six

	% Change in industrial production		Exports of manufactures by Six to Six as % of their total exports	
	1955/58	1958/61	1955	1961
Belgium-Luxemburg	+ 1	+ 6	26	20
France	+ 10	+ 4	18	19
Western Germany	+ 6	+ 8	37	38
Italy	+ 6	+ 12	7	11
Netherlands	+ 2	+ 8	12	12
Total for E.E.C.	+ 6	+ 8		
U.S.A.	— 2	+ 6		
U.K.	— 2	+ 5		
World	+ 2	+ 7½		

Source: National Institute Economic Review, August 1962, pp. 26 and 31.

It can be seen that E.E.C. production rose, but so did that of the rest of the world. In other words 1958-61 was a period of recovery. Growth rates had been high before 1955-58, they rose after 1958, but no faster than in non-integrated countries.

Intra-European trade increased significantly only in the case of Italy as far as the proportion of Intra-Six trade to total trade went. In the case of Belgium, there was, in fact, a substantial drop. That there was a very substantial increase in international trade during the period cannot be denied. But

this may be due to growth of national product (which demands higher industrial imports), and would have occurred anyway.

The suggestion that industrial growth rather than the tariff reductions between the Six was responsible for the increased international trade is further reinforced by the growth of British exports to the Six. Taking eleven of the most important trade groups (chemicals, textiles, metals, machinery and transport equipment, and other manufactures), British exports to the Six rose from the equivalent of $715 million in 1955 to $947 million (by 32%) in 1958, and to a further $1,458 million in 1961 (a rise of 54% during the period of E.E.C.-in-existence). Since intra-Six exports rose by 31% between 1955 and 1958, and by 84% between 1958 and 1961, it can be seen that Britain did lose position, but benefited, nevertheless, by industrial prosperity within the Six.

After a thorough examination of the situation, R. L. Major comes to the conclusion: "All this suggests competitiveness as the major influence at work. Certainly there is evidence that Italy's prices became more competitive. So Italy improved her position. France's competitive advantage came from her devaluation rather than from a movement in costs." These factors may have led to an increase in trade by Italy and France in their established continental markets — E.E.C. or not.

It may be admitted that E.E.C. has given an impetus to both national income growth and intra-Six trade, but it is easy to over-estimate the effect of the new enlarged market in this process. A larger market may lead to expansion, but it need not. The United States, for instance, which have the largest unified market within their huge continental expanse in the capitalist world, have had a very slow rate of growth since 1955 — slower than almost all countries hedged by tariffs. And the growth rate of the Six is falling now.

An article in the Economist of October 20, 1962, gives the following figures:

Industrial Production

	% Changes since January, 1962
Belgium	+ .1 June, 1962
France	+ 2.1 June, 1962
Western Germany	+ 1.0 July, 1962
Italy	+ 1.9 May, 1962
Netherlands	— .6 July, 1962

Monsieur Robert Marjolin, one of the chief economists of E.E.C., is quoted in the article giving the above figures as saying: "For a classical economist, faithful to the theory of cycles, it would seem that we are at the end of a boom. . . . We are certainly moving into a less exuberant economic development." It may be that the establishment of E.E.C. has merely

postponed the onset of the period of relative stagnation which seems to have gripped the United States for some years now. But there is no certainty whatever that the momentum given to the economies of the Six by the new spirit of adventure implied in the foundation of a larger supra-national unit will carry on for ever. On the contrary, it is more than likely that the new economic unit will be subject to the same laws of boom and depression to which other capitalist economies are liable. To overcome them may require methods which may be unacceptable to the free-trade eurocrats of E.E.C. Nobody can say that the future of prosperity in the European Economic Community is assured.

2. The European Economic Community and the Problems of the Primary Producing Countries

The world is more than ever split into two great economic camps; on the one side are the great industrial nations, and the rest of the world on the other.

This " rest of the world " consists of countries which in the past have been subsistence producers and suppliers of raw materials and foods to the industrial nations. Australia, New Zealand and South Africa (and to a lesser extent the Argentine and Uruguay) are in a special position in this raw material supplying world. These " white settlement countries " have prospered in the past on the basis of a food and raw material export economy to such an extent that standards of living have risen as fast and faster than in the industrial countries. But even so, Australia and New Zealand have in common with the countries of Latin America, Africa and Asia their dependence on exports of raw materials and food to the industrialised countries and their ever-growing " propensity to import " based on rising standards of living which can only be satisfied, not out of home produced goods (they are not available because of lack of industrialisation), but out of imported commodities.

In fact, the world economy as we know it today, was based on British industrial predominance in the nineteenth century. British capital and enterprise, represented largely by its financial connections, went to all corners of the globe to develop raw material resources for use in the British economy. These raw materials were paid for, partly out of the profits which British business earned overseas and partly from industrial exports sent to the countries overseas. As the British market expanded, so expanded the economy of the raw material producing country — there always was a close relationship between expansion in Britain and expanding national income abroad. The countries of continental Europe and U.S.A. joined this world division of labour later. But whereas

Britain dismantled her own agriculture and relied heavily on the cheap imports of food and raw materials from overseas, the countries of Europe and U.S.A. were never prepared to sacrifice their own agriculture for the sake of cheap imports. Neither were they prepared to rely as heavily as did Britain on the importation of raw materials. Germany in particular developed a chemical industry very early which made her more independent from overseas supplies. As far as agriculture went, all the countries of continental Europe developed it by way of intense protection, subsidisation and the like.

By the 1950's, Britain, while continuing to be the only open market for food and raw materials from overseas, had reached a point where increased incomes tended to be spent on manufactured goods rather than on food. The problem of the modern " affluent " society seems to be obesity rather than starvation. Once the basic food requirements are satisfied, additional income is directed towards more refined enjoyments which are produced by manufacturing industries. Nevertheless, the growth of British income and population maintained the United Kingdom as an important, profitable, although no longer rapidly expanding, market for the overseas world.

On the other hand, the protective tendencies of the countries of Western Europe and North America have become increasingly accentuated since the war. Farming in these countries, which used to be extremely backward, has been developed by high price guarantees and direct subsidisation at an accelerating rate. To the extent that local demand could not be satisfied by increasing local production, high prices were fixed with the intention to choke off all demand for imported produce.

As far as raw materials went, substitution by chemicals assumed ever increasing proportions. And where substitution by chemicals did not reduce the market for overseas produced raw materials, new technical developments put the emphasis on raw material saving products. Such developments as electronics, air travel, space science and so on, which are the growth points of Western European and North American economies, have very low raw material components. The cost of these products is largely contained in the labour and monopoly elements of capital. Take the raw material contained in a transistor radio — and you realise why the market for raw materials in the industrial countries has not expanded at the same rate as the incomes of these industrial countries.

On the other side of this situation stand the raw material producing countries. They look with anxiety at the ever-increasing " self-sufficiency " of the industrialised world. Their exports no longer expand. The table which follows shows the disastrous stagnation which has gripped the foreign trade of

the " overseas " world and it compares it to the expansion of trade which has occurred in the industrialised countries of the West.

Exports of some raw material and foodstuff supplying countries compared to exports from Western industrial countries (in mill. $U.S.)

Raw material and food exporters

	Highest Exports 1954 - 1960	1961 Exports
Argentina	1,027 (1954)	964
Brazil	1,562 (1954)	1,403
Chile	542 (1956)	460
Uruguay	249 (1954)	175
Venezuela	2,432 (1960)	2,415
Kenya	112 (1960)	116
Ghana	293 (1954)	292
Rhodesia	576 (1960)	579
Ceylon	407 (1955)	364
India	1,379 (1957)	1,396
Pakistan	401 (1955)	400
Australia	2,202 (1957)	2,325
New Zealand	846 (1960)	793

Industrial Countries

	Highest Exports 1954 - 1960	1961 Exports
France	6,864 (1960)	7,222
Western Germany	11,418 (1960)	12,690
Belgium	3,775 (1960)	3,925
Netherlands	4,028 (1960)	4,288
Italy	3,648 (1960)	4,188
U.K.	10,352 (1960)	10,754
U.S.A.	20,584 (1960)	20,912

Source: International Monetary Fund — International Financial Statistics, July, 1962.

It can be seen that in the raw material and food exporting column, only very few countries showed higher exports in 1961 than in 1960 — this being an indication that 1960, having been the highest export year between 1954 and 1960, there has been constant expansion in exports. Most countries show peaks which exceed 1961 exports belonging to some years previously, indicating that their exports no longer expand steadily in an upward direction.

On the other hand, if you look at the industrial countries of the West, you find that all of them show 1960 as the previous highest year, being again exceeded in 1961. There has been continuous expansion over the years.

Stagnation of exports of the raw materials and food producing world and expansion in trade between the industrialised countries of the West — that is the main feature of international trade of the last seven to eight years.

At the same time the people of all countries — and the raw material and food producing countries not the least amongst them — have been asking for higher incomes, year by year. They got it, but where exports did not expand, import restrictions had to be imposed. These restrictions led, in countries like Latin America, to violent inflation. In the Argentine the price level in March, 1962, was 7.5 times that of 1953. Prices had risen seven and a half times. In Brazil prices had risen almost eight times to what they had been in 1953, while in Chile they were 14 times their 1953 level.

The desperate situation in which the primary producing countries of the world find themselves is illustrated by a table which was published in the British Treasury's Bulletin for Industry, September, 1962 :

Export prices of manufactured goods and primary commodities

	1950	1955	1961
Manufactured goods - - -	100	115	128
Primary commodities - - -	100	100	88

In other words, while industrial prices (the imports of primary producing countries) have risen by 28%, primary producing countries' export prices have fallen by 12%. How disastrous these price developments are for the formerly " colonial " world can be illustrated by the case of Latin America. It has been calculated that the drop in the price of coffee has cost Latin America coffee producing countries about $6.500 million in eight years, from 1954 to 1961. This is over twice the total amount of aid given by the United States to Latin American countries from 1954 to 1958. The Cuban revolution has undoubtedly one of its roots in these unfavourable economic developments.

India has been going steadily into debt in order to pay for the missing export proceeds. Remittances on account of debt service and investment rose between 1958 and 1960 from $152 million to $358 million and an ever-increasing proportion of Indian exports is being absorbed by this rapidly growing debt service. In some ways this is also the situation in New Zealand.

It is difficult to say whether the growing self-sufficiency of the E.E.C. countries has been further emphasised by meaures taken by the European countries which are members of E.E.C. since its inception. Western Europe's import expansion during 1960, so the Economic Bulletin for Europe, August 1961, reported, was increasingly concentrated on manufactured commodities, originating almost exclusively in Western Europe and North America. While the imports of crude materials rose sharply, the expansion was concentrated on products supplied mostly by developed regions. The share of the less developed

regions in total Western European imports declined even for most of these commodities (e.g., rubber, textile fibres, oil seeds), of which they are the principal suppliers.

The countries of the Six have always been protectionist. E.E.C. is undoubtedly accentuating these trends. But the United Kingdom has been standing out as the last bastion of free trade with the raw material and food producing world. If Britain should join E.E.C. this last bastion would fall and the trends of contraction of international trade between raw material supplying and industrialised countries of the West would be further accentuated.

Protectionism applies to the importation of industrial goods as well as to that of raw materials. With the increasing saturation of Western markets with primary products, it is becoming of ever growing importance for formerly primary exporting countries to add to their list of exports of manufactured goods. If Britain joined the European Economic Community former preferential treatment for such manufactures would be abandoned. It was with very good reason that the first official protest made by Australia and New Zealand against the proceedings at Brussels was on the subject of manufactured exports. There have been commentators in New Zealand and elsewhere who tried to belittle the importance of the subject of manufactured exports. They considered that New Zealand and Australia, being essentially primary producing countries, should not place difficulties in Britain's way when she was forced to raise tariffs against Commonwealth manufactured exports in order to placate the Six and win entry into E.E.C. In fact, however, Britain's willingness to take manufactured as well as primary exports from the Commonwealth at preferential rates is one of the most important aspects of British trading relations with the raw material supplying world. If the overseas world is for ever to be restricted to the supply of raw materials, balance of payments crises will go from bad to worse. The Common Market, and in particular, in the eventuality of Britain joining it, will aggravate the split between the former colonial world and the industrialised West.

Britain's joining of E.E.C. would contribute to a futher exacerbation of the division of the world. At present Britain is a bridge which may make easier the healing of the various splits which divide the world. As a trader she can supply an assured market for many raw material supplying countries, for large quantities of their exports, so that their problems of readjustment will have to be only marginal. As a political unit Britain can act as the honest broker between East and West, a position for which she is historically, geographically, politically and temperamentally particularly well fitted. And

if she devoted some of her swollen arms expenditure to the development of the countries which are now short of foreign exchange due to the stagnation in the trade of primary products, the welfare, not only of the aided countries, but of Britain herself, could be steadily improved.

If Britain joined E.E.C. her independent role would be abandoned and the raw material producing countries would have to look elsewhere for markets, industrial know-how and support. If Britain joined E.E.C. she would greatly increase the economic difficulties of the poorer countries of the world.

3. The European Economic Community in the East-West conflict

There are few factors in the world today which are so hostile to an improvement in world living standards and well-being in developed and under-developed countries alike — including our own — as the so-called Cold War. The Cold War is a term applied to a situation where, in the absence of any declared war between the Soviet Union and her allies and the United States of America and her allies, relations between these two important parts of our globe are essentially hostile. The Cold War is a state of affairs where trade between the two cold-warring partners is hampered by suspicions, and where damage, politically and economically, to either party is considered a desirable state of affairs to the other. Under such conditions any trading or political agreement which may, perhaps, in the short run, favour one party, so that in the long run both parties may prosper becomes impossible. Yet, it is only by trading for mutual benefit and by a policy of give-and-take that world living standards can be raised.

The Cold War leads to false economic choices. Thus, for instance, instead of trading with the economically important countries in Eastern Europe, New Zealand's eyes are glued on to the American and European markets which suffer from surfeit. Similarly, because political Cold War considerations are connected with the creation of the European Economic Community, resistance against the economically harmful effects of that Community on New Zealand (and Britain) is undermined by appeals to the need for the unity of the "free world" and similar political slogans.

The weakening of our own economy through the Cold War has led to the infiltration of more and more foreign capital and control into our economy. Where oil prospecting by Rumania and Russian trade contracts could have saved us millions of pounds now and in future, such favourable arrangements have been ruled out, and our oil industry is handed over to oil companies whose interests must necessarily be global. This is only one example. On the other hand, where small countries

can play the large international monopolies (be they in the West or in the East) against each other, the bargaining country is liable to gain, as has been proved in the cases of Egypt, India, and to some extent Italy (where it has resisted Cold War pressures).

The worst aspect, however, of the Cold War is the need for ever growing armaments. Their most hideous danger is, of course, the danger of final annihilation of everything we cherish, everything we have built, everything we are cultivating, and everything we hold dear, and that this, our world of growth and sunshine, be changed into one of mutilation, epidemic, starvation, disease, poverty and ruin. But from the economic angle too, it is the burden of Cold War armaments which has led to a constant weakness in the British balance of payments to the point where the British economy had to be deflated severely in order to reduce the drain on precious overseas reserves. Not that British exports have proved disappointing — on the contrary. There has been a steady growth in the volume of British exports by 3% per annum — a growth which has even exceeded her growth of national income in many cases. But the absorption of precious British resources into the armament drive has kept Britain's price level high and her competitive capacity low. Western Germany, in the early fifties, when she was still prohibited from re-arming, conquered much of the world market because of her ability to maintain full deliveries and large reserves, against countries which had to deflect their resources into armaments, like Britain.

Furthermore, while for instance, during the first nine months of 1960 and 1961 the British balance of payments showed deficits of £230 million and £108 million respectively, £211 million of the 1960 deficit and £259 million of the 1961 deficit were due to the Government payments — largely on defence, armaments and war account. An abatement of the Cold War would make it possible for Britain to resume her place amongst the world's ablest and leading nations — capable of assisting other countries in their development and combatting the basic cause of tension in the world today : poverty and under-development in the sight of affluence and squandered riches.

Even the United States are suffering from balance of payments difficulties. And these difficulties have rendered it necessary to reduce economic activity in the U.S.A. — with resulting mass unemployment. President Kennedy at the September 1962 meeting of the International Monetary Fund stated : " The United States could bring its international payments into balance overnight by withdrawing its forces,

reducing aid." It can be seen that the idea that the United States economy can survive only in a Cold War climate, is incorrect and that even the United States would greatly profit by a relaxation of international tension. It has been calculated that if, for instance, one-fifth of the funds which the member states of the NATO and Warsaw political groups are spending on military purposes were used for promoting the economic development of under-developed countries, this would amount to $20,000 million annually, or $500,000 million in 25 years.

In other words, the key to peace and prosperity for the word lies in a thaw — in warmer political relations between the West and the East.

Yet, in the mind of Professor Dr. Walter Hallstein, President of the Commission of the European Economic Community — in some ways its President and Prime Minister in one — the Community has been conceived as an instrument in the Cold War. In an essay entitled " Economic Integration as a Factor of Political Unification," Professor Hallstein wrote: " The European world is menaced by political forces whose aim is to destroy the European way of life. These forces are very strong and are constantly growing stronger. The means available to destroy our way of life are military and political, but also economic. It is certain that the use of economic weapons against us will increase in the near future because there are probably more of them available. Our defence must be prepared in the same spheres by a closely knit system of military alliances, by strong political morale and by all the economic strength we can muster."*

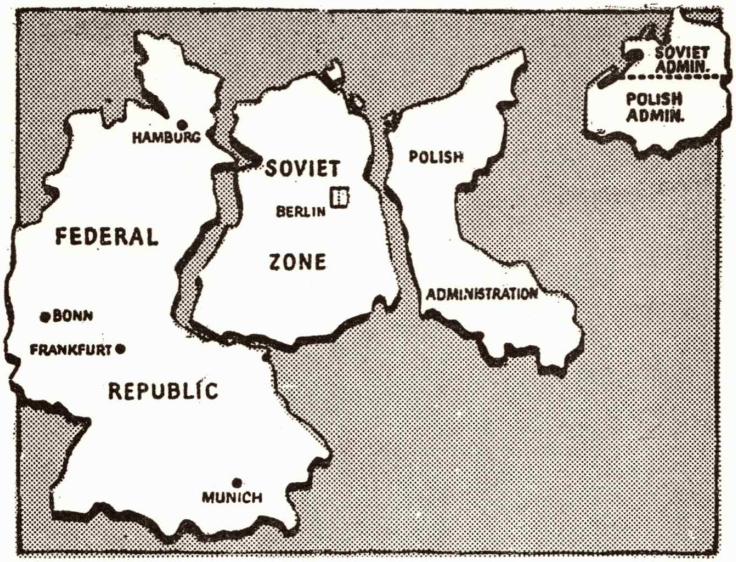
The formation of the European Economic Community may point towards a further consolidation of the rigid positions taken by the cold-warring parties. It must not be forgotten that Western Germany is one of the most influential partners in the European Economic Community. Western Germany considers itself to be the sole heir of the former German Reich. It has not recognised the territorial adjustments made under the Potsdam Agreement and it has broken off diplomatic relations with all countries (except the Soviet Union) which have formally recognised the Eastern German Democratic Republic.

One may say, without fear of contradiction, that the unification of Germany within its pre-war frontiers, is the most cherished hope of the Government of Western Germany. All political moves made by the Government are made in view of this desired — but impracticable — reunification. The Western

* W. Hallstein — Economic Integration as a Factor of Political Unification — Contribution to a volume of essays — Mimeographed, Brussels, 28/6/1961.

German Government resists every move towards a relaxation of tensions if it means a further confirmation of the status quo. And the status quo implies the existence of the East German state. The agreement between France and Western Germany is largely based on a Western German understanding that France will back Western Germany's position in exchange for Western Germany renouncing all her claims against France. In other words, the political basis of E.E.C. is a bargain between France and Germany, leaving Germany's front free

The small outline map reproduced below appears regularly every week in "THE GERMAN VIEW," an official propaganda bulletin published by the West German Embassy in London



in the West, so that she may devote all her energies to her activities in the East. Adenauer, better than any of his predecessors in German history, has understood that Germany's past mistake has been to try and fight both East and West simultaneously. Hitler went awry when he opened a war on two fronts, and so did the Kaiser. Adenauer, by tying Germany firmly into the Western alliance hopes that this fatal mistake may never be repeated again. At the same time, he is drawing additional strength from this alliance for his own ambitions in the East.

There is no saying that the Cold War aspect of the European Economic Community will remain dominant for ever. The past five years have shown the administration of the

E.E.C. so preoccupied with vital liberalising and economic matters, that the political aspect has not figured large. Trade with the Soviet Union and Eastern countries of Europe has not suffered either — and as far as dangers to a further increase in that trade go, they are no different than the dangers which threaten every other country outside the E.E.C. — as being outsiders relative to the insiders co-operating with each other against the outside world.

Nevertheless, in the forseeable future there can be no doubt that Western Germany will remain violently opposed to any form of disengagement and consequent disarmament. As long as the Franco-German entente stands it is unlikely that the countries of Western Europe will, in general, reduce their armament expenditure. But once the general lines of policy have been laid down, the question of sharing the burdens of armament expenditure becomes an economic one. Unilateral disarmament on the part of Britain, so as to strengthen her own economic power in the world, would be out of the question in so close an economic and political grouping as is represented by E.E.C. In other words, E.E.C. is not a factor uniting the world, a factor making for peace. It is a factor which may very well introduce new rigidities into the international situation and keep Britain from falling away from the arms race, as a considerable (and growing) part of the public in Britain might favour in the future.

CHAPTER III

Britain and the E.E.C.

1. Reasons given for British entry — and their validity

The reasons given for British entry into E.E.C. are either economic or political or both. I shall first deal with some of the economic reasons.

(a) Economic Reasons

There is the argument that Britain must join E.E.C. in order not to lose her trade with the Six. Indeed, the formation of E.E.C. has posed a formidable problem to all countries which are not members of this exclusive grouping. Since tariff barriers between the Six will ultimately be abolished, Western German goods, to take an example, will have preference over similar British goods in the Dutch market, for instance, if Britain stood out. For duties against foreign goods (that is goods supplied by countries not members of E.E.C.) will remain. Thus, the argument goes — if you can't beat them, join them.

This argument may have some strength — but there are certain aspects to it which are usually neglected in putting it.

First of all, the gain made by joining E.E.C. and thus having freer access to European markets will be balanced by certain losses. The first loss is trade with the Commonwealth. At the present time, Britain exports 38% of total exports to the sterling area, and another 6% to Canada. In other words, 44% of British exports went in 1961 to the Commonwealth. On the other hand, only 16.7% of her exports went to E.E.C. countries. Is Britain to sacrifice 44% for 17%?

For, there can be no doubt, if Britain joined E.E.C., the loss of export markets by countries like Australia and New Zealand and Canada, but also of some of the African and Asian Commonwealth countries, would force these countries to look elsewhere for markets. And countries cannot buy without selling. Thus, if the excluded Commonwealth countries looked, for instance, to Japan or the Soviet Union, the Eastern European countries and China for growing markets (and they can undoubtedly be found there) these markets will be available only if the exporting countries also import goods from there. But it is just in the very lines in which Britain is strongest that these countries can make the most advantageous offers. In the electronic and optical fields Japan now leads the world, both in quality and price ; in the field of heavy industry, countries like the Soviet Union and Czechoslovakia are very competitive suppliers as has been proven already in the case of India or Egypt — even in the case of motor cars, Japan and

Russia can approach our traditional suppliers in price and efficiency. In other words — if Britain abolishes free access to the Commonwealth, her export trade to the Commonwealth is going to be replaced in part by her former competitors. Thus any gains Britain would make by joining E.E.C. would be at least partly compensated by losses made in her Commonwealth trade. This would, of course, be more the case if Commonwealth countries' total exports were markedly reduced due to import prohibitions into E.E.C. — as might be the case with New Zealand. In such a case Britain would be able to export a smaller proportion of a smaller total amount of imports demanded by these newly impoverished nations.

Another compensating loss, which is frequently ignored, is the fact that Britain would have to open her own markets to E.E.C. goods without let or hindrance. Whether total motor car production, for instance, would benefit by such open slather or whether it would suffer is a very open question. If tariffs were withdrawn from continental motor cars they may well oust British cars from their own market, rather than British cars ousting them from theirs. This is only one example. The fact that British industry is, in fact, somewhat backward in many respects compared to continental industries of the same kind is, in fact, frequently taken as one of the reasons for British entry. The argument goes that "going into the Common Market will be a bracing cold shower" (Mr MacMillan). Typical for this approach is the reported remarks of a retired Christchurch barrister upon his return from Britain: "If and when Britain joined the Common Market, the working man was in for a rude awakening. Anyone who had travelled in Europe recently knew that those engaged in industry there were industrious and prepared to work from daylight to dark. Unless the British working man is willing to do likewise, God help him." Obviously, if joining E.E.C. means a reduction in the levels of living of the working people of Britain, there would be little gained in such accession.

This reduction in working conditions must also be looked at from the point of view of the increased cost of food which would go with British entry into E.E.C. The exclusion of Commonwealth food from the British market — at least at world prices — is partly a move on the part of the Six to increase the cost of production in Britain. Allowing tariff free food imports into Britain from cheap overseas sources, like New Zealand, Canada or Australia, would mean an "unfair advantage" to Britain. For that reason Britain has to raise her food prices to the continental level. It is estimated that this will mean at least 3 - 4% increase in the overall cost of living. In terms of working class living standards, where food plays so much more important a role in the budget than in the

budget of middle and upper class people, the rise in food prices may mean an increase of 10% or more in the cost of living. These increased costs can either be recouped by working class action and increased wages, or they can be put on the shoulders of the wage earners. In either case, many of the advantages of association with the Six will be counterveiled by the disadvantages of higher cost.

The situation is, however, somewhat different from the one assumed in the saying that Britain must join in order to preserve her market in Europe. Britain exports mainly industrial goods into Europe. As I have mentioned above, in the case where Britain produces identical products with the continent, her competitive position is not good. But British exports are usually of a variety of goods which have no exact equivalent in Europe. Certain chemicals, certain textiles, certain forms of machinery and so on are British specialties, and it is of these specialty lines that the exports of manufacturing countries to other manufacturing countries consist. This being so, the main determinant of export volume in the trade of manufacturing countries amongst themselves is the level of income in the buying country. When the buying country is prosperous, its imports increase from all sources, when its economy is depressed, its imports fall. Since the countries of E.E.C. had a period of prosperity during the last decade, it is not surprising to see that the formation of E.E.C. has had no adverse effect on the import of manufactured goods from outside sources. In fact, British exports to E.E.C. increased from 13.8% of all her exports in 1957, to 16.7% of an increased total of exports in 1961. The following table shows that British experience was not unique. The increased prosperity of the countries being members of E.E.C. has caused increased manufacturing imports from all countries :

Share of exports to the E.E.C. in the total exports of Industrial Countries

Exporting Country	Share of exports going to E.E.C. 1957	1961
Austria	49.3	49.6
Sweden	33.0	33.0
Switzerland	38.4	41.5
U.K.	13.8	16.7
U.S.A.	16.9	18.6
Canada	8.3	8.4
Japan	4.9	5.0

Source: Lloyds Bank Review, October, 1962, p. 10.

The argument that it is a case of " join or die " is obviously not tenable. Whether joining would increase Brtain's share in the market of the Six further than would be the case with her remaining outside is an open question. And whether the benefits of joining (if any) would balance the certain disadvantages and costs is very doubtful.

Another economic argument in favour of joining E.E.C. is that of the need for large markets. It is said that large scale industry can prosper only if it has huge markets at its doorstep. The American example is usually given. This argument is partly correct. And, in fact, it is the large industries, the huge trusts and monopolies — I.C.I., Unilevers, the oil trusts and so on — which are most anxious to see Britain in the Common Market. They may have quite a lot to gain in such an entry. Whether the concentration of productive facilities rendered possible by such a large free trading area would be on British soil is another question. Imperial Chemical Industries, for instance, has started a very large industrial complex in the Netherlands. Whether it would have erected these factories in Britain, had Britain been a member of E.E.C. in 1959, is an unanswered question. There are many reasons why in a unified market productive facilities should lie in the heart of the raw material supply region and close to the main consuming centres. This is the Rhine-Ruhr-Schelde region, and it is as likely as not that in case of E.E.C. being joined by Britain, a more determined migration of investment and capital to the continent would start. These big monopolistic concerns have never been interested in the national good. If they were developing in certain countries it was because conditions were favourable for such development — and these conditions frequently included Government protection. The supra-national ideals of the European Economic Community do not only abolish any material incentive for these huge monopolies to have their productive facilities centred in Britain, but they also undermine any moral obligation to maintain employment opportunities which may have been present before. The advocacy of the giant concerns for European integration is not by itself an indication that such integration would be good for Britain.

But while these giant concerns dominate public opinion due to their concentrated financial and advertising powers, they do not in any way represent the whole of British industry. As far as the ordinary kind of manufacturing business goes, which is the flesh and blood of Britain, a market of 50 million plus the vast export market in the multi-million Commonwealth, plus the export market so well established by many firms in all corners of the world is quite adequate. Mr Douglas Jay, a well-known political economist and Labour Member of Parliament in Britain in a letter published in the Economist of October 20, 1962, put the case as follows:

"The thesis that a market over 50 million is vital to modern industry is against the evidence. To mention the more serious studies, L. Rostas ('Comparative Productivity in British and American Industry,' National Institute of Economic

and Social Research, 1948) concludes that the size of the market theory is much exaggerated since, outside a few industries there does not appear to be a close inter-relationship between productivity and the size of the market. Comparing productivity in the U.K. to Sweden and Holland, he finds that relative productivity is in no way relative to the size of the market. This points to the fact that the optimum plant (or firm) and specialisation can be achieved within the limits of a smaller market."

Mr Jay then carries on quoting other more recent studies which come to the conclusion that 50 to 60 million potential consumers should offer as great or almost as great an opportunity for gains from specialisation and mass production as 150 or 160 million.

We have already dealt with another economic argument — namely, that E.E.C. has been prospering so much that for Britain to prosper she would have to join. This is a confused argument. For one thing, prosperity in E.E.C. was obviously due to factors other than the Common Market — at least largely — for the difference in growth rates between U.K. and E.E.C. remained the same before and after 1957. For another thing, we have shown that E.E.C. is subject to economic fluctuations, the trade cycle and to that extent to secular stagnation in the same way in which all other capitalist economies may be liable to such phenomena. Bigness — as U.S.A. has shown — does not exempt a country from the diseases of capitalism. Finally, there is no reason why Britain could not prosper outside E.E.C.

Britain, even if standing alone, is a rich and experienced country. To the extent that national wealth is only a reflection of national production there is every hope for the productive British people to increase and improve their standards of living as they have in the past. In fact, however, Britain does not stand alone. As a member of the European Free Trade Association, to which belong Sweden, Norway, Denmark, Austria, Switzerland and Portugal, with Finland as an associate member, and as the head of the Commonwealth, Britain is the centre of an important trading area where expansionary opportunities are well-nigh unlimited. To consider that only by merging herself in the European Economic Community could Britain survive is quite unbelievable.

(b) Political Reasons

When the defenders of British entry into E.E.C. are driven into a corner by being presented with the arguments which show that there is no saying whether entry will benefit Britain economically, while there are some very good arguments which

will show conclusively that the Commonwealth and Britain's traditional trading connections would be severely damaged, the political argument is usually advanced that Britain cannot stand out from Europe.

And, indeed, there is little doubt that the European idea is a most attractive one. To consider that nationals of E.E.C. countries can now travel from country to country within the Six without passports, that soon there will be no customs inspection at the frontiers, that labour will be able to move freely from country to country — in fact, that the ancient barriers that divided the countries of Western Europe may be torn down — is fascinating. And Britons, living only 20 miles away from France are obviously more attracted by this idea than would be people in New Zealand who look at these matters from a more theoretical angle. The European movement is inspiring. There is no doubt about it. Many Englishmen are enthusiastically in favour of it because of the vision which a united Europe creates in their minds. They are prepared to surrender British national sovereignty for the new greater good — European unity.

I hope I have made it clear in the foregoing that I too feel that the European Community as it stands — a Community of Western Germany, France, Italy, Belgium and the Netherlands — has a great positive aspect, and that I am wishing it well. So would most people right throughout the world. At the same time, it is doubtful whether Britain's accession to that Community would be of advantage or of disadvantage to the European idea.

The objective of the political wing in the E.E.C. — and this is a very strong wing — is to suppress national sovereignties altogether in favour of the supra-national bureaucracy which rules E.C.C. now. The idea is to entrust finally all economic decisions to the Economic Commission of Europe and the Council of Ministers, which would leave to the British Parliament functions of local administration only. Undoubtedly there are strong divisions on this point in the political wing of E.E.C. Complete merging of identities is being advocated in Belgium, Netherlands and to some extent Western Germany. On the other hand, President de Gaulle believes in a "Europe des patries," a Europe of States where economic and social policy is left with the European Bureaucracy, but defence and foreign policy — subject to co-ordination — in the hands of local Governments. How economic policy can be decided outside the field of defence and foreign policy is difficult to say, and whether General de Gaulle's idea means that economic and social policies should, to that extent, be subordinated to defence and foreign policies or vice versa, is not clear. But

even in this least revolutionary form of development as suggested by France, Britain would lose her independence and merge it with at least ten other European States.

This prospect does not attract even those in Britain who are the most enthusiastic advocates for entry into E.E.C. And so they suggest that Britain should join with the express purpose of stopping this fast integration from occurring. This is what the Economist — possibly the most single-minded advocate for entry in Britain — has to say :

" Once inside Europe, Britain should not support any proposals for moving swiftly towards a common budgetary policy, or a common investment policy, or even a common exchange rate policy. . . ." (6/10/62)

Yet, it is precisely such a policy which the European Economic Commission has proposed in its Memorandum on European Economic Policy of November, 1962. If Britain considers that she alone will be able to stem the tide towards full scale integration under the new bureaucratic European Government, she is, of course, mistaken. For, from the third stage of European integration onwards, which is by now inevitable, a qualified majority of ministers in the Council of Ministers can approve any measure submitted by the Commission for Europe. On the other hand, if Britain thinks she can weld together a block of countries (like the Scandinavian countries, which would follow Britain's entry) which would oppose the policies of the established Six, she would work against the European idea, not for it. It appears to the present writer that Britain's staying out of the European Economic Community would — politically speaking — be as advantageous for herself as for the Six. It seems to be a case of six is a party, ten is a crowd.

As far as political influence goes — in terms of weight in the councils of the world, a Britain which is a member of the European Free Trade Association and the Commonwealth would, as an independent and sovereign nation, obviously yield greater influence than as part of a sovereign Federation where her voice would carry possibly only 4 votes amongst 27. (Western Germany, France, Italy, U.K. four votes in the Council of Ministers, Belgium, Netherlands, Norway, Denmark, Ireland 2 votes each, and Luxemburg 1.)

Note that the neutral countries, Sweden, Switzerland and Austria — now belonging to E.F.T.A., the European Free Trade Association — are not included in the above list. Association has been refused to them and Britain's joining would leave them economically out on a limb. Britain, if she joined, would be accused of bad faith, which would reduce her standing in Europe further.

2. Who wants Britain in E.E.C.?

The case for Britain not joining E.E.C. seems to be very strong. Yet, of the nine London morning papers, eight are in favour of British membership; and as far as the direction of public opinion goes, it seems to be overwhelmingly in favour of British entry — almost at all cost.

What then are the powers which push the British Government into an attitude which makes it appear that entry into E.E.C. is inevitable (although, in fact, it is a very doubtful proposition)?

There are first, of course, the European idealists which I have already mentioned. There is a feeling that the British public, which is by nature conservative, should not be allowed to discuss the pros and cons of the case too intensively. This might lead to irreversible positions being taken. Entry into E.E.C. should, therefore, be kept out of the "political" arena. Once Britain has joined, it is considered, the benefits of the step will become obvious. Let us dive with determination and shut our eyes — if we have to have a cold bath let's get it over quickly. And, quite apart from the fact that the idealists hope and feel confident that the "bracing cold shower" will strengthen the British economy and not induce a state of exposure, they feel that once the entry has been approved by Parliament, it will no longer be a case of staying out or getting in, but a case of how to make the best of it. These groups want to present the British people with a fait accompli, being confident that they know better. The Treaty of Rome contains no clause enabling a country to withdraw from the Community once it has joined it. And, in fact, it would be difficult to effect a withdrawal after economic forces had adjusted themselves to the new conditions of quite a different political and economic environment. The shock of withdrawal would after a period of years outweigh any short-run advantages for which a country might consider withdrawal.

Secondly, there are two very strong economic groups in Britain which are wholeheartedly in favour of entry. I have already mentioned the super-monopolies like I.C.I., Unilevers, the oil trusts and so on. But there is another group — closely connected with these international giants: the City of London financial interests.

The City of London financial interests have, during the last century and a half, partly through their control of the Bank of England, and partly through their personal connections which include much of the English "Establishment," exercised an influence on English policies quite out of propor-

tion to the place which these interests occupy in the British economy. Yet, the great merchant houses, the private bankers, the money market dealers, the great banks, the insurance concerns reflected Britain's ties with the world. To them accrued most of the profits of Empire and their splendour and skill reflected the greatness of the Empire. Their word weighed heavily in the scales of politics and economics — and it does still to an only slightly smaller extent. There is no doubt that the financial institutions known as the City are more efficient, more experienced and more capable than most of their European rivals. If Britain joined E.E.C. the City of London would regain some of that splendour which was lost since the downfall of the Gold Standard. The opinions of these interests in favour of British entry are based on good sound grounds, as far as they themselves are concerned. And as they have been used, by hallowed tradition, to consider their own interests the interests of Britain, they feel fully justified in putting the case for British entry with all the great means which they have at their disposal. These means are represented by their great influence over the daily press, by their daily contacts with the greatest of the great and, in fact, in many cases, by the identity of the leading families in the City and Government.

But finance represents only a fraction of British national income, and a very unevenly distributed fraction at that. While, without doubt, the City of London has greatly contributed to British mercantile supremacy, the need for keeping activity and employment down so as to maintain Britain's position as a banker who can pay out on demand any of the world currencies in any quantity, has been a severe drag on British prosperity, first during the inter-war period, and now again since the introduction of the high interest policies of the Bank of England during the 'fifties. British entry into the Common Market, with a view to gratifying the financial interests in the City of London, would be an act of being " penny-wise, pound-foolish."

The greatest pressure, however, for entry has come from outside Britain. The American Administration has, for reasons best known to itself, made it a point of honour to see Britain in E.E.C. The system of preferential trading with the Commonwealth has been for a long time a thorn in the eye of American administrators. Britain's entry into E.E.C. would put paid to this system once and for all. American dislike of the Commonwealth trading agreements are based on sound economic thinking. Many commodities now imported into New Zealand from Britain would come from U.S.A. were there not preferential treatment for Britain. For instance, while most refrigerator manufacturers are American licensed, they import their parts from Britain because — after duty — it is cheaper

to buy British than buy American. If duties were identical the situation would be reversed. The same applies to some motor car models and many other items.

There is another economic advantage which would accrue to U.S.A. with the end of preference for Commonwealth goods in Britain. The Canadian economy is precariously balanced. A large export surplus to Britain is balanced by a large deficit with U.S.A. British entry into E.E.C. would reduce Canadian exports to Britain considerably because Britain would have to give preference to French wheat over Canadian importations. Other Canadian exports would also suffer. The result would be an even more pronounced dependence of Canada on U.S.A. Canada cherishes her connection with Britain because it represents a counterweight to the industrial giant on her southern border. With the dissolution of the Commonwealth, which would follow Britain's integration into Europe, Canada would become increasingly dependent on U.S.A. It is not impossible to conceive under such conditions of a U.S.A.-Canadian " common market " which would ultimately lead to the absorption of Canada by U.S.A. Such prospects are undoubtedly in the interests of the United States and one can understand American keenness on Britain joining E.E.C.

What applies to Canada applies, to a somewhat smaller degree, to New Zealand and Australia. The loosening of our ties with Britain would create somewhat of a vacuum which, undoubtedly, would be filled, at least partly, by an American " presence." Thus Britain in E.E.C. would represent a chance for expansion of the American presence in areas so far protected against U.S.A.

There is, of course, also a political aspect — connected with America's Cold War policy. NATO has proved a less and less unified structure. With the recession of the belief in any threat from the U.S.S.R. of military attack on Europe, there is less and less to hold the NATO nations together and more and more to split them apart. Thus it has been considered by Washington that, unless NATO has an economic basis, it would sooner or later fall apart. The united Europe would present this basis. E.E.C. as it stands at the present time has a somewhat independent and almost anti-American bias, due to the strong French influence in that grouping. Entry by Britain would be considered by U.S.A. a moderating influence which could keep Europe in closer touch with U.S.A. than might be the case otherwise. However, all these speculations are insecure and it is as likely that an enlarged E.E.C. would fall away from U.S.A. influence as much as the present grouping.

Nevertheless, America has been using her influence on every level to encourage Britain in joining and to discourage any opposition to Britain's entry.

Thus in April 1962, Mr David Bruce, U.S. Ambassador to Britain, was reported to have stated :

" We need allies, certainly, but we need allies with more cohesion. You go into the Common Market and it might alter the political set-up in Europe. We welcome a third force. It would not infringe upon the special relationship between the United States and Britain."

Again and again Mr Macmillan has pointed out that entry into the Common Market was necessary to maintain good relations with U.S.A. On May 1 1962, the Financial Times of London, commenting on the negotiations then going on, stated :

" The objective must be to press forward with the negotiations and yet ensure that in the case of a breakdown reasonably minded people in the Six, **the American Administration** and last but not least British industry were all convinced of the sincerity of the effort which Britain made."

In summarising the work of the Commonwealth Prime Ministers' Conference in September 1962, and again advocating British entry into E.E.C., Mr Macmillan was reported as saying on October 6 :

" To lose influence both in Europe and in Washington, as failure to enter must mean, would seriously undermine our international position."

And when Mr Menzies, the Australian Prime Minister, spoke up in the interests of his country against preferences being taken away from Australian manufactures, " United States Administration officials resented intrusion by the Australian Prime Minister in the British political debate on the Common Market." (London, June 20.)

It is very likely that it is the fear of such a " resentment " that is keeping at least the New Zealand Government from making its feelings on British entry more articulately heard in Britain. For there can be little doubt that an outspoken and consistent opposition on behalf of New Zealand to British entry into E.E.C. on present terms would have a substantial effect on British public opinion. If public opinion in Britain is to be kept in a state of suspended animation, all strong expressions of opposition must be avoided. No doubt the New Zealand Government has been made aware of this requirement by those who are interested in making Britain enter the European Economic Community at any price to Britain or us.

CHAPTER IV

Whither New Zealand?

1. What Britain's joining E.E.C. would mean to New Zealand

British entry into the European Common Market is the greatest threat which has occurred to New Zealand economic development well nigh in all its history. Mr Marshall, Minister of Industries and Commerce, said in August 1962, in reference to the so-called special position which was to have been accorded to New Zealand should Britain join E.E.C. : " New Zealand's death sentence has been commuted — we will live."

However, the statement that New Zealand would be granted a special position should Britain enter E.E.C. was denied on November 15, 1962 :

" When a French official was told that New Zealand understood that her position would be negotiated in detail after arrangements for various commodities had been made, he replied : ' It is technically impossible to put the case of New Zealand on one side, apart from other countries. There will be repercussions from them if you make a special case of New Zealand. Any conditions made for New Zealand will be included in the general agreement.' "

If we can trust Mr Marshall, this means that we are back to the death sentence.

Why should Mr Marshall consider the situation as it is being negotiated at Brussels — without special consideration for New Zealand — a death sentence?

The answer to this question is that the situation as it is shaping now represents a threat to our exports of dairy produce, meat and — although this is rarely admitted — indirectly wool as well. Furthermore expanding exports like those of newsprint, fruit and manufactured goods will be even more severely hurt if the prospects of Britain's entry under present conditions become realities.

It is a commonplace that New Zealand's economy depends on exports. But it is not usually so widely recognised that our economy depends in its present structure on **expanding** exports. Stable exports — as has been our lot during the last few years — mean stagnation and ultimately recession at home, because the growing economy, as it is structured at present, demands more and more imports. These can only be paid for out of more and more exports. Thus even a stabilised export trade would mean recession in New Zealand. However, any fall in exports, be it ever so light, within a comparatively

short period, lead to extremely severe economic problems — provided, of course, we maintain the structure of our import-dependent economy unchanged.

Dr. C. A. Blyth, Director of the New Zealand Institute of Economic Research, in the New Zealand Herald Annual Financial Review of August 15, 1962, has put the position very clearly as follows:

"What would happen to our balance of overseas payments in the next ten years if export receipts remain unchanged and if we continue to import enough goods to maintain employment and our present rate of expansion?"

"Projections based on these assumptions are shown in the table below, where it is also assumed that a substantial amount of replacement of imports by local production — £20 million by 1964-65 and £40 million by 1968-69 will take place:

Projections of Balance of Payments 1964/65 and 1968/69

£ million at 1960 prices

Item	1956/57	1960/61	1964/65	1968/69
Exports - - - -	273	285	300	300
Imports (merchandise)	—244	—273	—280	—333
Freight, Insurance, Travelling, Debt Service, etc. - - -	— 47	— 68	— 87	—112
	—291	—341	—367	—445
Current Deficit - -	— 18	— 56	— 67	—145"

It can be seen that, unless our exports increase by over £20 million per year, our balance of payments deficit will become quite unmanageable.

This is due to two factors — our strong import dependence, and the ever-growing deficit on account of non-merchandise payments — of which among the fastest growing is the item for debt services.

Yet, what would happen to our exports if Britain adopted the proposals made by the Six as condition of her entry?

The general policy of the Six to which Britain would have to submit is that foodstuffs would have to be sold at "harmonised" European prices, that is prices which are sufficiently high to guarantee a reasonable return to European peasant farmers on their very high cost. Prices will also have to be uniform over the whole of the Community. In order to keep prices up, levies will be charged on imported produce. These levies will be used to finance the dumping of surplus produce outside the Community, which may be necessary when the high prices choke off demand too effectively. They will also be used to encourage greater productivity within the Community, thus further reducing any imports from outside.

On top of these levies there will be import restrictions so as to make sure that the market is not swamped by imported produce. Such policy would without doubt apply to butter and cheese, to wheat (in which only Canada and Australia are interested) and beef. Mutton and lamb may be treated somewhat differently, and so may fruit.

The effect of such restrictive policies on our dairy industry would be disastrous. At the present time New Zealand exports over 95% of her butter and about 90% of her cheese to the United Kingdom.

Even as it is there are difficulties in placing a growing production at stable prices on to the British market. Recently the Food and Agricultural Organisation (FAO) of the United Nations made some projections regarding the outlook for dairy produce. It came to the conclusion that in Europe there will be an excess of production over consumption of milk and dairy products (in milk equivalents) of about 9 million tons by 1970. This forecast is based on an increase in milk production in the E.E.C. by 19 million tons, and a projected rise of consumption by a much smaller amount. The countries of the Six are keen to have these surpluses dumped on the British market. This is one of the reasons why they are keen to get Britain into the Community — but also why they are keen to have Britain in the Community on their own terms.

If it is realised that Denmark would join the Community if Britain joined, it can be seen that there would be a very small niche left for our dairy produce by 1970. The situation then would be that Common Market butter and cheese (Danish, French, Dutch, Irish) would have preferential and free entry into Britain. On the other hand, New Zealand butter and cheese would be subject to varying import quotas and tariffs. Whether New Zealand could sell even half the present quantity of dairy produce under such conditions is an open question.

In 1962 the exports of New Zeadand produce were made up as follows (year ended September 1962) :

Butter and Cheese - - - -	£66	million
Meat - - - - - - - -	85	„
Wool - - - - - - - -	100	„
Other Exports - - - - -	54	„
	£305	„

Source: Reserve Bank of New Zealand Bulletin, October, 1962.

It can be seen that meat occupies now a more important place in our export economy than butter and cheese. About two-thirds of our meat exports — by value — are mutton and lamb, one-third is beef and veal.

As far as beef goes, Britain is no longer our main market. U.S.A. has replaced Britain in this respect. However, Britain is still an important market, and what is more, it represents a reserve market for us when the U.S. market collapses as it has a habit of doing on occasions. The situation regarding beef on the British market would be comparable to that of butter. The French, being growing suppliers of beef, would see to it that imported beef would be subject to quota and tariffs and no expansion.

As far as mutton and lamb is concerned there have been suggestions that duty-free entry to the British market could be maintained. Such an arrangement would imply certain quota restrictions on New Zealand mutton and lamb imports into Britain since the Six insist on the elimination of all "unfair" competition to the export of their own farm produce, which would be subject to high prices and the quota cum levy system. In a joint statement, Professor Philpott and Dr. J. D. Stewart of Lincoln College put the case thus:

"If, as envisaged in the suggested arrangements, the British are permitted to continue with their own independent subsidy policy for lamb, this is certain to result in continued expansion in British lamb output, and in this case we face the prospect of quotas imposed on our lamb at the expiry of the Ottawa Agreement in 1967."

In the long run duty-free entry of lamb and mutton would be incompatible with the common external tariff of the Six. A tariff of 20% is at present operating and this will have to be imposed even if a duty-free transitional period was allowed. However, whatever the situation, the British market will be restricted and hardly any alternative outlets for New Zealand meat in the countries of the Six will be available.

Such a situation must lead to a severe fall in the price of mutton and lamb realised by New Zealand exporters. To the extent that in the majority of cases wool growing in New Zealand is carried out as a joint venture of meat producing and wool growing, the danger is that the whole business of sheep farming may become unprofitable. This would affect the growing of wool as well, since a reduction in the sheep population would immediately react on the output of wool. Thus, although at the present time British entry into E.E.C. seems not to represent a direct threat to our wool exports, even this last pillar of our prosperity is threatened in the case of British unconditional acceptance of the Treaty of Rome.

As a sop to New Zealand and other Commonwealth countries, so grievously affected by the common agricultural policies of the Six, it has been suggested that world-wide

commodity agreements should be worked out to replace the lost markets by new ones.

The basic idea of such agreements is to create reserve funds (possibly financed out of the import levies raised on import of New Zealand produce into Britain and elsewhere) which are to be used to finance gift schemes or semi-gift schemes of foodstuffs to under-developed countries. The whole idea of such agreements appears hazy and unrealistic. International relations must be based on trade, not aid, and a long term solution to our difficulties on the basis of give-away schemes seems to be neither possible nor desirable.

It can be seen that in the eventuality of Britain joining the European Economic Community, New Zealand's future would be gravely prejudiced. While Mr Marshall's reference to a death sentence may, after all, be exaggerated — nations will always find a way to survival, and we shall see that there are many avenues of survival for our country — there can be no doubt that the Six have very little sympathy with us. They are preoccupied with greater things, and New Zealand is too far removed from them to divert them from their plans towards industrial and, what is more important in this context, agricultural integration. Ultimately there can be no European Economic Community without a common agricultural policy. And in view of the nature of the agricultural policy of the Six there just is no place for New Zealand in their scheme.* It appears increasingly clear that Britain is realising this position — which may mean abandonment of her plans to join in a Club which would present few amenities to the British, and whose members would look with some chill at demands of a newcomer to alter the constitution of the Club for his convenience.

2. Which way for New Zealand

One thing which has become clearer from the many discussions surrounding the subject of British entry into E.E.C. is that the future of expanding New Zealand exports is precarious, even in the case of Britain maintaining her present trading policies.

The production of dairy produce and even of meat is growing faster than consumption in the consuming countries of the West. As has been pointed out before, New Zealand's position in this respect is not so different from the position of other primary exporting countries, particularly in Latin America, but also in Asia and Africa.

* Incidentally this applies also the suggestion made by some ill-informed people in New Zealand that New Zealand herself should join E.E.C. as a full or associate member.

If Britain joined E.E.C. — a decision which would be gradually forced on to us — would have to be made in a rush. And rush decisions are never as well formulated as the trial and error methods of gradual adjustment to changing circumstances require. The question for New Zealand is not whether we can for ever rely on the British market as the only and sole outlet for our produce or not; the questioan is whether the future for our exports will be one of: Britain our main market with growing alternative outlets elsewhere, or Britain merely one of our many markets, with Britain's importance in the picture contracting suddenly.

The **gradual** process of adjustment could be carried out while our living standards kept on rising and our economy expanding. The **sudden** break with the past which would be implied in Britain's adherence to the Treaty of Rome would mean the need for adjustments so severe that a stop would have to be put to any increase in living standards for some time. In the usual way in which such adjustments downwards operate they would hit most those least capable of bearing them. The wage earner would find that his real wages would be reduced both by reduced employment opportunities and increased prices, if not actually reduced money wages.

Only a very strong and united trade union movement could protect wage workers from having the greater share of the burden of reducing living standards placed on their shoulders. Adherence of Britain to the Treaty of Rome would, therefore, herald a period of much industrial action in this country. Similarly the small farmer would find very quickly that he could no longer make ends meet. These are the people who must be most interested in looking for a way out of the dilemma of shrinking markets in a hungry world.

When looking for solutions to our problems we must first discard some fallacies. It is frequently held that New Zealand's chances to develop alternative markets lie in South-East Asia and possibly Africa. Professor Holmes, of the Victoria University of Wellington, in an article in the New Zealand Economist and Taxpayer of October 23, 1962, gives the answer to this suggestion: "Especially when account is taken of the likelihood that butter will find little extra outlets in the tropical developing countries, it is clear that commercial outlets in these areas would be quite inadequate to absorb the excess supplies of advanced countries."

The point is that New Zealand is in the export business, not to feed starving mouths (we like to do that in the process of doing business), but to acquire the foreign exchange to buy the goods which we cannot produce in our own country.

The trouble about the countries of South-East Asia and Africa and Latin America is that they do not produce the kind of goods which we require if our economy is to expand. They produce raw materials like ourselves and some textiles, of which we could no doubt import more, but they do not produce the important machinery and semi-processed metal goods, the chemicals and sophisticated consumer goods which we require for our expansion. Thus, if we were able to export more butter, cheese, milk powder and meat to these countries, we would want to spend the proceeds in U.S.A. or Britain or any other industrialised country. The developing countries of South-East Asia and Africa and Latin America are, however, just as short of dollars and sterling, of marks and francs as we are — in fact, more so. They would, therefore, look askance at a growth of imports of what they would rightly consider new luxury goods, which mortgage foreign exchange so urgently required for their own growth. Thus, there is no doubt that any expansion of sales of our main products to these countries would very quickly run into import quotas, even where the actual purchasing power of the very poor people who live in these countries could be diverted in the direction of our imports.

Nor do the United States of America constitute a very hopeful new market for our produce. We have, indeed, made some creditable progress in that market, as far as beef and wool go. It must, however, never be forgotten that the agricultural subsidisation policies of the United States are almost identical with those of the European Economic Community. Both groups of countries prefer to have their farmers subsidised through high prices rather than through high subsidies. In U.S.A., of course, the policy of high consumer prices has led to the need for high Government payments for farm support as well. In U.S.A. the Government, through the Commodity Credit Corporation, will buy up any farm commodities in the stabilisation scheme which cannot be sold at going guaranteed prices. Huge surpluses have thus accrued. The American Administration must, under these circumstances, be loth to allow foreign foodstuffs into the country. If New Zealand could export unlimited quantities of butter or dairy produce into U.S.A. at prices below the guaranteed price for American farm produce, this would merely mean that less American farm produce would be purchased by consumers and more would have to be stockpiled by the Government. Professor Holmes, in the article quoted above, points out that even beef imports into U.S.A. are not safe from such import restrictions. He says : " If surpluses of beef do emerge, derived to a large extent from big increases in artificially stimulated production in Europe, we would quite probably be confronted with restrictions on entry to the United States."

Where then must we look?

The growth of international trade from overseas raw material and foodstuff suppliers was co-incidental with the growth of Britain from a poor, underfed, mainly agricultural nation to a rich, better fed industrial one. That was the story of the 19th century. Now, of course, Britain has reached the stage of saturation and while we are grateful for free entry to that rich market, it can no longer absorb increased quantities. In the case of continental Western Europe, and of U.S.A., similar considerations apply. Is the growth of raw material and foodstuff supplying countries then a matter of the past which cannot be repeated because the conditions of the past are no longer present?

The point is that there are two groups of countries in our present period which are at a stage of development very similar to that of Britain during the 19th century. These two groups of countries are Japan and the countries of the Soviet Block.

Industrial progress in Japan during the last decade has been nothing short of astounding. Manufacturing production has risen from 100 in 1953 to well over 300 at the present time. It has more than trebled and is about to quadruple. National income has doubled during that period, showing that the increased industrial production has affected not only the industrial sector of the economy, but all sectors. The volume of imports of Japan has risen with the volume of income and production to almost three times its 1953 figures, exports, during the same period, quadrupled. Japan now accommodates a population approaching the 100 million mark at rising living standards on a territory not very much larger than New Zealand.

Industrial expansion of Japan has made it possible for that country to produce goods and commodities which are suitable in exchange for the importation of the goods which we can supply. Not only are her products in the electronic and textile groups of comparable quality to what we are used to, but they are cheaper. Our terms of trade, in trade with Japan would improve. By buying more from Japan we would not only lay the foundation for bigger exports to that country, but also for a larger goods equivalent for the same quantity of exports sent to, say, Britain or E.E.C. Thus there can be no doubt that the determined fostering of the Japanese market must be one of the objectives of New Zealand trading policy — Britain joining E.E.C. or not.

At the same time, it must be realised that the standard of living of the average Japanese is still very low. The taste of

Japanese has to be accustomed to meat and dairy produce, and the Government of Japan is not altogether favourable to a change of diet of the people which might imply a permanently increased burden on the balance of payments of Japan. Japan is also liable to the erratic ups and downs of the capitalist trade cycle and the possibility of agricultural protection policies must not be overlooked in even such an unlikely case as Japan.

Japan is undoubtedly a good prospect for diversification of New Zealand exports. But it is neither a large enough basket for all our eggs, nor should we put all our eggs in one basket at any time. This then draws our attention to the countries of the Soviet Block. Similarly to Japan, in the countries of Soviet Russia, Czechoslovakia, Eastern Germany (to some extent), and in the long run, China too, there has been an astounding rise in standards of living. Incomes in these countries are rising from year to year and at the same time these incomes are still largely spent on better food. These countries, while emerging rapidly from their stage of early poverty, are not yet saturated with food. They are still countries where consumption standards are improving in the basic lines of dairy products and meat — above all. In this context the following cable is of great interest. Moscow, June 1, 1962:

"Soviet housewives woke this morning to learn that they will have to pay 30% more for meat and 25% more for butter — temporarily.

"Up to now butter has been selling at about 2.90 roubles a kilogram (about 12 shillings per pound) and most kinds of meat at between two and three roubles a kilogram (about 10 shillings a pound). Average Soviet families have even now not been able to afford meat many times a week."

Between 1953 and 1961 the Soviet Union's population increased by 29 million. At the same time workers' incomes went up by 87%. So consumption of meat in Russia has gone up by more than two million tons from 1953 to 1961, and while production has expanded very rapidly, it has not been able to keep up with demand.

Obviously there is a tremendous market for New Zealand meat and dairy products in the Soviet Union. At the same time the Soviet Union and the other countries of the Soviet block can now supply all the heavy machinery which New Zealand requires for her development. In other words, the conditions for trade on the basis of mutual benefit are as favourable as they are in our trade with Britain, Japan or any other country which can absorb our products. There is no need for New Zealand to trade exclusively with the Soviet Union or Soviet block countries — unless Britain's joining

E.E.C. renders our situation so desperate that really huge surpluses must be disposed of in new markets. If Britain does not join, Japan and the Soviet block could be developed as markets which would absorb our growing production.

Trade with these two industrial growth blocks does, of course, not detract from the strenuous efforts which are already being made by our various Marketing Boards to sell in less promising markets like the South Sea Islands, South America, the Caribbean, Hong Kong, etc. There cannot be too much diversification. But historically speaking the obvious choice of trade must be with countries which are emerging from poverty on the crest of successful industrialisation.

Trade diversification means not only the sober approach to new markets (which means buying from new sources as well as selling to these new markets), it also means selling new products. New Zealand has almost entered the stage now when a start could be made on the export of manufactured goods. Already a total of 136 manufacturing firms in New Zealand have been exporting consistently in the three years from 1959 to 1961. The total value of the products exported by these manufacturers was more than £6 million, Mr J. R. Maddren of the Canterbury Manufacturers' Association found recently, according to a report in the press on October 31, 1962. Principal countries to which exports were made were Australia (53 firms), Pacific Islands (85 firms), North America (13 firms), South-East Asia (22 firms), United Kingdom (22 firms), West Indies (4 firms), and Japan (5 firms). To see what can be done, it has been reported that a Christchurch shirt manufacturer has been able to export shirts to Hong Kong and a Christchurch carpet manufacturer won a tender for laying carpets in a new hotel to be erected in that same city.

The creation of suitably Government supported trading organisations to foster New Zealand manufactured exports, the availability of finance and a general more positive approach towards the export of manufactures from New Zealand could multiply past successes. However, there is one great drawback to our attempts to foster manufacturing exports.

An ever-growing number of our more successful manufacturing concerns is either being established or taken over by foreign interests. Overseas firms which buy themselves into the New Zealand economy do not do this in order to compete with their own head office factories. They do this in order to have access to the New Zealand market — frequently with a view to making their profit not on manufacture in New Zealand but on the sale of raw materials and spare parts, etc., from their head office to the New Zealand branch. This leads to two

impediments to export sales. The cost of raw materials in New Zealand manufactured goods is in many cases above international level. Recent research has shown that New Zealand wages and labour cost in general are in many instances below, for instance, Australian cost; but material cost is higher. New Zealand manufacturing firms do not necessarily buy in the cheapest market; they are tied down to buying from overseas sources of supply connected with the manufacturing firm through capital and other financial interests. The other impediment is the fact that a, say, British radio firm having branches in Sydney and Auckland would, of course, not encourage its Auckland branch to export to Sydney. The wider the ramifications of the head offices of New Zealand branch factories, the more restricted does the market for New Zealand manufactured exports become. Dr. C. A. Blyth in the New Zealand Herald Supplement aforementioned, acknowledged this point explicitly when he stated: "To get New Zealand subsidiaries of overseas companies (which operate market sharing agreements) to export may necessitate purchase of the overseas interest."

There is probably no more important aspect of our national life which we have to watch in order to be able to survive and prosper than the ever-growing penetration of industry and commerce by overseas capital. On present forecasts, sterling payments on non-merchandise account will grow by £20 million between 1960-61 and 1964-65, and by another £25 million during the next four years. At a time when our exports will hardly cover payment for the necessary materials which we require to keep our economy fully extended, such increasing expenditure on "invisibles" is surely dangerous.

Mr Donald T. Brash has published the result of some of his investigations on this subject in the Christchurch Press of August 28 and 29, 1962. According to his findings the total of interest and dividends earned by foreigners both on public and on private debt (which includes participation in New Zealand business on a share capital or partnership basis) was £6.5 million in 1949-50. In 1960-61 it had quadrupled to become £24.5 million. Over the 12-year period lying between these two years, total interest and profits accruing to foreign residents were almost £187 million — nearly £20 million more than the increase in external debt itself. In 1949-50 foreign debt service (which includes dividend and profit remittances as well as re-invested profits) represented 3.8% of New Zealand's export earnings. By 1960-61 this figure had risen to 7.5% of our earnings. If we project present trends into the future, by 1975 we shall pay almost 20% of our exports for debt services, before we can buy any imports in exchange.

New Zealand is slowly strangling her exchange earning capacity by allowing overseas interests to acquire a larger and larger stake in her economy.

The present writer has in another place pointed out that one of the ways of countering this perilous tendency is to establish in New Zealand an Industrial Finance Corporation which can borrow (relatively cheaply; compared to equity capital — 6% is very cheap money) abroad and make available necessary foreign funds to new business in New Zealand, rather than wait for foreign participation in business.*

But more is required to allow New Zealand to grow — against all vicissitudes. There are a number of great and unexploited resources in our country which should be exploited to the benefit of the country — bearing in mind our need for establishing new industries which will reduce our dependence on imports in the face of only slowly growing (or perhaps even diminishing) exports. Oil and natural gas is one such resource, iron and steel is another. These resources can only be exploited with the idea of creating a whole host of new industries on top of them by central planning. Just as our electric power resources are best handled by the State, so that industry can be developed where necessary, so should oil and natural gas be centralised as part of a general policy of growth. Overseas control of these new resources will not lead to their most effective exploitation in the interests of the New Zealand economy. An example is the establishment of the new oil refinery at Whangarei. It had first been assumed that the cost of this refinery would have been about £20 million. In the upshot it turned out that the share capital was only £6 million; 40% of the proposed capital was to be offered to New Zealand interests. Obviously no New Zealand interests could have been attracted unless the return on this investment had been less than 5% per annum. Yet, although the cost of the project to everybody's surprise turned out to be less than a third of what had been anticipated, the New Zealand Refinery Co. Ltd. in its prospectus anticipates a rate of only 5% dividend on the shares. There can be no doubt that a rate of 5% would have been offered had the issue been one of £6 million, instead of £1.8 million as it turned out. The through-put of oil will be the same irrespective of cost — one must surmise that the oil companies can regulate the profit of this new venture so that only 5% remains in this country.

Another aspect of this kind of private foreign investment is that it excludes New Zealand recourse to cheaper supplies. There are available at the present time oil supplies from

* W. Rosenberg — Full Employment, Can New Zealand's Economic Miracle Last? —A. H. & A. W. Reed, Wellington, 1960.

Russian and other sources which may be up to 20% cheaper than the prices charged by the British-American concerns which operate the New Zealand oil refinery. In order to get them to run the refinery (which could have been run by a State corporation as is the case in Italy, for instance), New Zealand may have to pay up to 20% more for its imports than would have been necessary had cheaper sources of supply been used. If we assume an annual bill of £30 million for petrol imports this will be a cost of up to £6 million every year which New Zealand has to pay for not operating her own industries.

Without any reasons of principle, for simple pragmatic reasons, it appears that New Zealand will be able to weather the storms that lie ahead only if the State takes a more determined hand in the organisation of New Zealand industry. If we are to wait until foreign concerns come to create our new industries, of which oil and iron and steel are only the most prominent examples, we will tie ourselves down in terms of lost foreign exchange and reduced possibilities of free choice of export and import markets. At a time when every penny of foreign exchange which we can obtain by exporting to any market in the world must be found, and when every penny of foreign exchange which we can save by buying in the cheapest or most favourable market must be saved, all the resources of New Zealand must be concentrated towards industrial growth by our own strength.

New Zealand will never be autarchic. She will never cut herself off from international trade. International trade will remain our life blood for many decades to come. But in a period where the threat of the European Economic Community, combined with some more general trends in international trade, reduce our export earning capacity, every step must be taken to put our own local resources to our own use.

We can overcome the difficulties which lie ahead of us if we are prepared to use all our own skill and resources collectively and if we are willing to co-operate with every country in the world on the basis of mutual benefit, without fear or favour.